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HEADLINE: Few Companies Dialing Up Dual-Purpose Fuel Cards

BODY:

Competition among oil companies for gasoline sales often is in full public view. Rarely do service stations selling one brand of gasoline display prices higher than those posted by a nearby station supporting a different brand.

Oil companies' efforts to compete in the prepaid fuel card market, however, are much more reserved. Some experts say the lack of cutthroat competition stems from insufficient evidence showing that prepaid fuel cards effectively generate sizable increases in customer loyalty and sales.

"By offering a prepaid card, the hope is that more people will come and buy gasoline from us," says one oil company executive who requests anonymity. "But that contention is soft. How many people really do that? You guess and hope, and move ahead."

Prepaid gas cards currently are used by 11% of Americans, according to a consumer survey conducted in March for Dayton, Ohio-based Standard Register by Eric Mower and Associates, a Rochester, N.Y.-based research firm. Eighteen percent of the 1,202 respondents said they would likely use a prepaid card to purchase gas.

If prepaid fuel cards were highly effective in generating customer loyalty, observers say, oil companies would be fighting harder to make their card the preferred card. But today, most companies offer the same type of single-function prepaid fuel card, without much variance in marketing.

Some companies, however, are attempting to differentiate their fuel cards. Fairfax, Va.-based Mobil Oil Corp. last year added a prepaid phone card application through a partnership with Jackson, Miss.-based MCI WorldCom. Now, Tulsa, Okla.-based Citgo Petroleum Corp. says it plans to add a prepaid phone card application later this year to its Citgo Cash Card.

No Calls

Other leading oil companies issuing prepaid fuel cards, though, including Exxon Corp., Shell Oil Co., Texaco Inc., and BP America Ltd., which owns Amoco Oil. Co. and has announced plans to buy Atlantic Richfield Co., have no such plans. And Phillips 66, which intends to roll out its own prepaid fuel card next year, will not include a prepaid phone card function either, says Zeta Powell, manager of marketing technology.

Oil companies that sell both a prepaid fuel card and prepaid phone cards separately typically do not want to combine the products because the profit margins on individual phone cards are so high, explains one oil company executive. "We sell our fuel cards and phone cards side-by-side on the counter, and the two probably won't meet," he says. "It's just a hard proposition for us."

Instead, some insiders say companies looking to increase their fuel card sales will partner with other retailers to give cardholders more options to use their cards. However, officials at San Francisco-based Chevron say they have not identified a business case for basic fuel cards, let alone ones with multiple functions or retailer acceptance.

"It's a niche product, but I don't know what that customer niche is," says James Hardy, Chevron manager of card marketing. "We have not been able to build for ourselves the economic case as yet for prepaid cards, but it doesn't mean that we are not looking at it very closely."

Hardy says market research involving both cash-paying and credit card-using customers in Houston, Los Angeles, Atlanta and Seattle found no support from either group for a prepaid Chevron fuel card.

"Basically, the credit card customers are not interested because they prefer credit cards," he says. "And cash-paying customers don't want to prepay."

Indeed, many of the leading oil companies acknowledge that the consumer market alone will not drive future prepaid fuel card sales. Exxon, for example, recently signed on Niles, Ill.-based HA-LO Industries Inc. as the sole marketer of prepaid Exxon Driver Cash Cards to businesses, which use the cards to reward their own customers or employees. Exxon executives were not available to discuss their specific plans.

Mobil also is looking to increase business-to-business sales of its Go Cards, says Todd Basselait, Mobil card business development manager. "The dealers remain our core business," he says. "But the business-to-business sales is where the additional growth will come from."

Business Push

Basselait says Mobil sells about 4 million Go Cards per year. He says most consumers buy the cards as gifts or give them to their high-school or college-age children to ensure they have funds to buy gas.

Last year, 30% of Go Cards were sold to businesses. The goal this year is to increase the rate to 40% to 50% of sales. Basselait says having a prepaid phone card function on the plastic should help to achieve that goal.

"It adds utility in all 50 states," he says. "So even if you're operating a company in a city that has no Mobil stations, the Go Card still enables their rewarded customers to use the card as a prepaid phone card." The charge on the prepaid card function is 25 cents per minute

While Cathy Wilton-Bransch, BP merchandise manager, agrees that a combined prepaid phone/fuel card stretches the product's market reach, BP has no plans to issue such a product or make any other changes to its prepaid fuel card.

Louisville, Ky.-based Stored Value Systems Inc., a division of Minneapolis-based Ceridian Corp., processes BP's prepaid fuel card transactions. Stored Value Systems also processes prepaid fuel card transactions for Mobil, Exxon and Citgo.

Like Mobil, Citgo expects to increase consumer and business interest in its prepaid Cash Card by adding a prepaid phone card function. Ronnie J. Harness, Citgo payment card products manager, says the company has agreed to terms and is awaiting reciprocal agreement from an undisclosed long-distance carrier. Calls initiated with the card will cost about 30 cents per minute, he says.

Emergency Use

Because other prepaid phone cards available to consumers charge a dime or less per minute, Harness says he doubts many consumers will buy the enhanced Cash Card solely to use as a prepaid phone card. "What it does is allows the customer to use the card as a phone card in case of emergencies," he says.

Shell and Texaco, meanwhile, which now operate under a joint venture called Equilon Enterprises LLC, thus far have followed separate prepaid fuel card paths. Though the Shell Prepaid Card launched in March 1997 and has sold more than 3 million cards, a Texaco prepaid fuel card is not expected until early 2000, says J. David Vandersteen, manager of card marketing at Equiva Services LLC, a service company that supports Equilon. After both cards are issued for a while, the companies will consider combining the Shell and Texaco brands on the same card, he says.

Neither card, though, is expected to include a prepaid phone card function, Vandersteen says. "The advantage to remaining solely a fuel card is the loyalty or exclusive usage of your brand," he says.

Typical Shell Prepaid Card customers include corporations wanting to incent customers and individuals who buy them as gifts, Vandersteen says. Business clients include State Farm Insurance, Harley Davidson, Suzuki, Lockheed/Martin, Century Communication and CNA Insurance.

While Atlantic Richfield Co. later this year plans to test a smart card with a reloadable electronic purse application (Debit Card News, 5/31), Shell, as well as the other leading oil companies, say they have no plans to conduct similar chip card tests.

While oil companies look to expand their business partnerships to boost their prepaid fuel card sales, T. Jack Williams, Stored Value Systems senior vice president, says some companies soon may partner with large retailers to provide more options for consumers to use their fuel cards. To make it work, he says, both parties will need to offer needed "utilities," such as groceries or gasoline.

"The reason people buy the cards is managed spending," Williams says. "Parents often give the cards to their children away at college. And what do many of them need most? Food, gasoline and an ability to pay for a call home once in awhile."

Though none of the leading oil companies acknowledges plans to work with another retailer, one oil company executive says such a partnership could depend on who processes their transactions.

"If both operate through Stored Value Systems, it would be easier," the executive says. "But then again, who owns the money and who gets paid for what? Stored Value Systems also processes proprietary prepaid card transactions for Kmart, The Gap, Old Navy and J.C. Penney.

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